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S&MM
SALES & MARKETING MANAGEMENT

Selling with your back to the wall

INFLATION and RECESSION

Managing the sales force
Sales costs Pricing Inventories
Fleet cars Inside sales force
Compensation Customer stress
Telephone selling
and More, much more

A 32-page Special Report. Begins on page 33.

Inside Out

General Electric Supply installs an on-line order-entry system that lets salespeople talk directly to a computer. Page 10.

Selling through dealers. To get its dealers out of a credit bind, Mariner Outboards gives them rebates to help their customers find financing. Page 10.

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Feeling fit in Houston. The Houstonian conference center has facilities to let you shape up at your sales meeting. Page 16.

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Industrial marketing. Launching a new industrial product takes more than just a sense of timing. Stan Lawler, an expert in the field, outlines the essential steps to be taken in four key areas. July 7.

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ABP ABC BPA

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phased out over the past 10 years). Consumer sales (about 10% of Liquid Paper's total) are now handled by Paper Mate, another Gillette subsidiary. Moreover, the company has installed product managers for each of its three product lines. And more new products to help "white out" the competition in the office supplies business are on the way. Among the possibilities: toner for copying machines and "basically anything with ink," says McCown.

COMMUNICATIONS

Big boost for a satellite

When IBM, Aetna Life & Casualty, and Comsat General began to sell the services of their Satellite Business Systems venture last year, they expected a warm reception for the satellite-based communications system from the nation's major corporations. Instead, the response has been cautious, even cool.

By late April, only eight companies had signed up for the SBS package, which includes facsimile transmission, voice communications, teleconferencing, and data communications. Still, SBS officials call those results "positive" and say several more large customers may sign on by the time the facsimile service begins operation in January.

To improve that picture, SBS marketing specialists have begun a campaign to bolster the image of their service. They kicked off the effort with a press tour of SBS facilities at Reston, VA, and a demonstration of the new facsimile terminal made by AM Intenational.

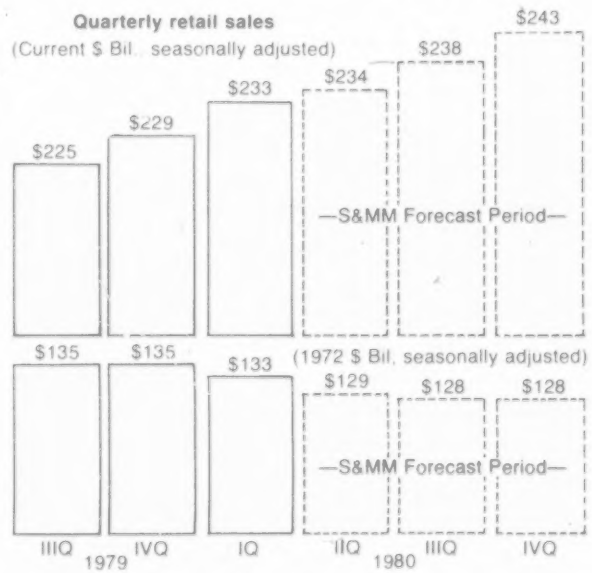
S&MM BAROMETER

Retailers riding a de-escalator

Real retail store sales (1972$) will likely show a 3.5% drop in the second quarter of 1980, but S&MM's Barometer* sees them plateauing the rest of the year. Indeed, Susan Sterne, head of Economic Analysis Associates, notes: "Compared to past recessions, corrections in consumer spending came faster and sharper this time."

Others see a continued slide in retailing. Rosanne Hersh, Goldman Sachs economist, expects a steep 9.7% fall-off in real retail sales between the first and fourth quarters. Martin Duffy, vice president–consumer economics, Data Resources, Inc., predicts a gentler 2.5% dip. He notes that each 1% increase in unemployment lops $70 billion off consumer buying power; and Hersh adds that, in addition to unemployment woes, a rising savings rate will pinch spending. Merrill Lynch Economics' senior vice president Allan MacKinnon is also gloomy about retail sales; in his opinion a key factor will be the extent to which rising unemployment hits free-spending two breadwinner families.

*The Barometer's first quarter forecast was off only 1.3%.



Note: Historical real retail sales are based on Bureau of Economic Analysis deflators.
Sources: S&MM retail sales projections are based upon personal consumption expenditure forecasts of Chase Econometrics, Data Resources, Evans Economics, Goldman Sachs, Merrill Lynch Economics, and A. Gary Shilling & Co.
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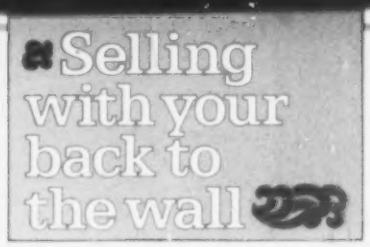
S&MM SPECIAL REPORT
SALES & MARKETING MANAGEMENT

Selling with your back to the wall

A guide for coping with **INFLATION** and **RECESSION**, including

Managing the sales force / Sales costs / Pricing / Inventories / Fleet cars / Inside sales force / Compensation / Customer stress / Telephone selling /

and More, much more



Introduction

Reeling from a combination of high costs and reduced sales, marketers may reasonably wonder, What happened to the glittering prospects for the 1980s? Actually, many of the elements for growth in this decade pointed out in S&MM's Special Report on the 1980s (Dec. 10, 1979) are still in place. But first things first.

Reckless years of ever-rising government spending and deficits, a preoccupation with printing money instead of building production capacity, and the ceaseless flow of regulations without regard to their economic effects on businesses are some of the wellsprings of our current malaise. As a consequence, marketers, for at least the balance of the year, will struggle to salvage what they can from margins squeezed by the inflation/recession crisis.

Many of the constructive steps that can be taken are detailed in this Special Report. But as marketers adapt their operations to today's circumstances, they should keep two points in mind: (1) Changes that avoid a panic atmosphere and that are carried out as the result of informed planning, will mean a sales operation capable of capitalizing on the upturn that will inevitably come; (2) Just as happened in the 1973–75 recession, there are sure to be some marketers shrewd and innovative enough to see their competitors' retrenchments as pure opportunity for them.

Remember, too, that recessions are efficient, albeit cruel, taskmasters in exposing the flabbiness, shortcomings, and weaknesses that tend to develop in less troublesome times when orders flow in, bonuses are high, and next year's goals seem a cinch. In that sense, many of the tactics recommended in this report are also highly suited for the long haul.

—THE EDITORS

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Selling with your back to the wall

THE 1980s ECONOMY

For marketers, a plethora of rocks and hard places

THAYER C. TAYLOR
Senior Editor/Management Sciences

Donald R. Chinery, president of Hirsch U.S.A., a marketer of leather watch bands, is a harried man these days. Because the bank loans he took out when starting up 2½ years ago are pegged to the prime rate, larger interest payments are "forcing us to raise prices." He has had to sweeten his commission structure "to give salespeople a chance to earn more against higher living costs." Worse, the recession is "keeping people from the jewelry stores where our product is sold."

Chinery is one of a fast-growing number of marketers caught in a pincer: high inflation that squeezes profit margins and a deepening recession that cuts purchasing power. The recession is expected to be short-lived, but inflation, gestating since the mid-1960s, will persist; most now believe through the 1980s' first half.

True, the inflation rate that soared to an annual 18% rate in the year's first quarter will be pushed down by the recession's dampening effect, to possibly 11%–12% by year-end. But that improvement will be brief and illusory.

Inflation's durability will be the result of two things. One, the imbedded causes that nourished it will be relatively untouched by the recession. Two, an election-conscious Administration will try to offset rising unemployment with deficit-financing that will almost certainly reinflate the economy.

Warns Irving Leveson, director of economic studies, Hudson Institute, in a report, *Issues for the 1980s*, sent to clients last month: "There are indications that recent efforts to slow inflation may lead to more than just another downturn to be followed by even higher inflation once the reaction to rising unemployment sets in: The outlook for inflation in the 1980s is dependent on assuring that the economy will not simply be reinflated when unemployment is high."

Because the inflation problem represents the interplay of trends over a prolonged period of time, it will take policy actions on various fronts over a long term to restore price stability. Those trends, interacting with each other, are:

- Poor productivity performance.
- Rising energy costs.
- An excessive government presence.
- Built-in "stabilizers" which fuel future inflation.
- The transition to a services society.
- Demographic and lifestyle changes.

The skyrocketing inflation rate that marked the first half of the year had two elements. "There was the 'bubble effect,' " says Lawrence Chimerine, chairman, Chase Econometric Associates, "which was due to three transitory factors: (1) high interest rates, which add to the cost of doing business and are passed on like any other cost; (2) high mortgage interest rates, which inflate the Consumer Price Index (CPI) because of the way the Bureau of Labor Statistics treats them; and (3) bulging oil prices, which doubled last year. And there is the underlying core rate, which is around 10% as the result of poor productivity and rising unit labor costs."

Whittling the core rate below 10% is pegged to two big unpredictables: energy prices and productivity, says R. Jeffery Green, director of the quarterly model, Wharton Econometric Forecasting Associates. "Predicting oil prices beyond the short term is extremely chancy," he notes, "although we probably won't see the ten-fold increase that occurred in the 1970s. Future productivity trends are also hard to pinpoint because so much will depend on the incentives business gets to invest in new plant and equipment, labor force skills, the regulatory atmosphere, technological innovation, and the changing output mix."

Productivity

Most of the discussion about inflation's causes revolves around the downslide in productivity in recent years. The Council of Economic Advisers notes in its latest annual report that labor productivity growth slipped from an average annual gain of 2.5% in the 1948–55 period to 0.8% in the 1973–78 frame and actually declined 0.9 in the private business sector last year.

Michael K. Evans, president, Evans Economics, traces a strong link between declining productivity and rising inflation. His studies show "for every 1% decline in productivity we get a 2% increase in inflation." In his view, the productivity falloff stems from "a declining investment ratio, which accounts for 1% of the productivity slippage; increased cost of government regulation, another 1%; large-scale rise in the number of young, unskilled workers, 0.5%; and rising energy costs, 0.5%."

Similarly, Otto Eckstein, head of Data Resources, Inc. (DRI), points out in a special study

> **There's a psychological factor that feeds inflation. When you feel that a certain price increase is sufficient, you take a little more just because of the uncertainty about inflation.**
>
> —Floyd Hall
> President
> B. Dalton Booksellers

for the Joint Economic Committee that "an analysis of the relationship between changes in productivity and prices, hourly compensation, unit labor costs, and unit profits for the nonfinancial corporate sector indicates that sectors and industries with above-average productivity growth had significant below-average price increases. Each additional percentage point of productivity growth corresponded to a lower inflation rate of 0.73 to 1.12 percentage points."

Interestingly, productivity performance varies remarkably among industry groups. While overall growth was less than 1% a year in the 1973–78 period, Bureau of Labor Statistics data reveal that the communications complex enjoyed a robust 7.2% rate, while mining declined 4.6% a year.

Indicative of the interplay between galloping prices and their causes, inflation itself is being blamed for part of the productivity slowdown. Because inflation casts a cloud over long-range pay-offs, companies are reluctant to commit sizeable investments in new plant and equipment and research and development.

Interestingly, new management styles may be an unrecognized factor, Harvard Business School professor Robert H. Hayes, believes. Addressing a Booz Allen & Hamilton executive briefing on industrial productivity challenges of the 1980s, he pointed a finger at three "ascendant" management styles he says hurt productivity: (1) Emphasis on short-term return-on-investment ratios which discourages long-term investment, particularly R&D. "We are buying a better 'present' at the sacrifice of our future," he told his audience. (2) Marketing that places too much reliance on market surveys, consumer questionnaires, and test panels to discover consumer needs encourages incremental product changes rather than innovative new or different products which may not have an obvious market at present. (3) "Financial portfolio management" that leads to conglomerate acquisitions that do not create real value. "The total spent on acquisitions in 1979 topped $40 billion, more than was spent on R&D," he said.

If Hayes is right, it seems reasonable to suspect that management's preoccupation with short-term gains has led it to put more emphasis on advertising spending at the expense of capital spending in recent years to achieve fatter market shares. The theory is that the higher the market share the easier it is to force through price increases.

The economy's changing structure, from a manufacturing orientation to a services one, is causing many to wonder if we have the right tools for measuring productivity. Vincent E. Guiliano, a senior member of Arthur D. Little's (ADL) information systems group, contends that "definitions of productivity have not kept pace with the economic transformation brought about by the three major waves of technological change: computers, telecommunications, office automation."

OUTLOOK: If past recessions are a guide, productivity in 1980 will fall faster than it did last year because companies slash output faster than they lay off personnel in downturns. Lee Phillips, a DRI economist, sums up the consensus view by noting "unless government sets a favorable climate that will encourage business to follow through with increased investments, chances of improvement are minimal." He says DRI estimates that an annual 1% hike in productivity through the early 1980s could shave 2.1 to 2.4 points off the inflation rate by 1982.

A strong optimist, Hudson Institute's Irving Leveson sees technological change, such as "the second computer revolution we are in the midst of, bringing striking improvements."

Energy

Ever-ascending prices at the gas pump dramatize energy's contribution to our inflationary woes since 1973. Last year alone, energy prices shot up 37%, almost three times faster than the CPI.

Aside from raising the costs of practically everything produced, rocketing energy costs make obsolete a considerable part of the country's capital stock.

Of course, the mounting bill paid each year for imported oil drains consumer purchasing power. Between 1978 and 1980 alone, it will increase

> **Will your income and lifestyle be better next year than this year? Will you or your spouse be able to afford that new car? Take a vacation? Will the prospects for retirement be better next year than now? For millions of Americans, the answer is no. I think there is something seriously wrong when our hopes for the future are simply to survive rather than prosper.**
>
> —Sen. William V. Roth Jr. (R.-DE),
> speaking at the spring meeting
> of the American Business Press

Mechanics of the swindle

The practice of indiscriminately increasing the supply of money—inflation—gives politicians the ability to have their cake and eat it too. They are cautious about raising taxes too fast, for fear of revolt (as we have seen in recent years); this revolt could result in their failure to be reelected or, if taxation became bad enough, they could be physically thrown out of office (a la the American Revolution). On the other hand, we know that the surest way to be voted out of office is to fail to respond to the Expediency Factors of voters, so vote-conscious politicians certainly cannot afford to cut back on government "functions."

Therefore, inflation provides politicians with a way out. *Inflation is a hidden tax (i.e., a hidden form of taxation).* By printing up enough "money" to, in effect, cover the remainder of each year's deficit, Uncle Sam gets off the hook. Individuals see prices rising sky high as a result of this "solution," but they do not understand why. As a result, not only do they not revolt against government, but they take up government's battle cry to "fight inflation," following its lead in pointing a guilty finger at all the wrong parties. The whole ludicrous situation is tantamount to a bank robber shouting to a bunch of depositors, "The culprits went that way; let's get them."

The question of whether inflation can be stopped avoids the real question. Of couse inflation can be stopped—simply by shutting off the printing presses. The question is whether those in power will stop it or whether enough people will ever sufficiently understand it to get mad enough to force those in power to stop it.

From "Restoring the American Dream" by Robert J. Ringer, published by QED/Harper & Row, New York

around $50 billion. "We cannot earn the foreign exchange with exports to pay this bill," says Barry P. Bosworth, senior fellow, Brookings Institution, "and the continued downward pressure on the dollar adds to inflation by raising the cost of imported goods." Ironically, in a reverse twist, OPEC itself contends that the shrinking dollar forces it to up oil prices to avoid a loss in its own purchasing power.

OUTLOOK: As long as the U.S. remains highly dependent on imported oil, the economy will be prey to energy shocks emanating from an unstable Middle East. Reducing our dependence will require tremendous investments in domestic oil and gas facilities—at least $25–$30 billion a year through the decade, according to the Dept. of Energy, at least $30–$35 billion, according to private estimates.

Government

Less government spending is the credo of almost every politician running for office from Washington D.C. to local hamlets, reflective of the conviction that government is one of inflation's principal creators. The federal contribution comes from deficit financing and increasing regulation.

While it's true that federal spending as a share of gross national product has trended downwards in recent years (it will shortly move up, as it always does in a recession), the deficits, on a cumulative basis, have taken awesome leaps. The coincidence of larger deficits and faster rising prices is no accident. (See box above.)

In the first half of the 1960s, for example, federal red ink aggregated $20.9 billion and the CPI crept up 4.7%. Since then, both deficits and prices have ballooned at faster rates—in the last half of the 1970s, the cumulative deficits totaled $233.2 billion, the CPI soared 34.9%.

Much of this is due to the social engineering programs launched with great hopes in the 1960s and to the redistribution of income from one group to another in the form of transfer payments. Between 1965 and 1975, transfer payments shot up from 5.7% of total personal income to 14.2% and, as an equivalent of wages and salaries, climbed even more spectacularly, from 8.3% to 22.1%.

Along with deficits, the mushrooming regulatory agencies have fed inflation by saddling businesses and consumers with increased costs. During the 1970s alone, 21 new regulatory agencies were created, bringing the total to 57, and, according to the Center for the Study of American Business, their aggregate budget swelled more than five-fold, from $866 million to $5.5 billion.

Murray L. Weidenbaum, director of the center, estimates that businesses and consumers laid out $97.9 billion to comply with the rules last year. There are hidden costs, too, he adds, such as the 10% of capital spending and an unknown amount of R&D that are diverted from innovative uses.

OUTLOOK: Public outcry against higher taxes and increasing dissatisfaction with the excesses of regulatory agencies will reduce the impact these two areas have on feeding inflationary tendencies. In the short term, no one expects the Administration to produce the $16.5 billion surplus promised for fiscal 1981. The Congressional

Budget Office listed a sensible program for cutting $18.1 billion from the 1981 budget, but the President studiously ignored it when he delivered a second budget message within three months of the first. "Rather than make major cuts in spending," argues Carol Brock Kenney, senior economist, Shearson Loeb Rhoades, "the Administration achieved its surplus by inflationary-boosting tax receipts and new revenue-raising measures. And the theoretical surplus promises to evaporate quickly with the recession."

A more favorable regulatory climate is also in the cards. Congress's clipping of the FTC's wings last month will not be lost on regulatory czars.

A. George Gols, ADL's vice president–managerial economics, thinks "a better integration between environmental management and its economic consequences will eliminate the nuisance type rules." He also sees a greater use of tax incentives and tax penalties to bring about desired evironmental conditions.

Built-in stabilizers

The 14.3% increase in benefits that will be given next month to 35.2 million people who receive Social Security symbolizes the powerful groups that have been able to cushion inflationary shocks with built-in stabilizers: cost-of-living (COLAs) increases for unionized workers and payments indexed to cost-of-living increases for recipients of government benefits. "They [COLAs] ease the pain and suffering," Wharton's Jeffery Green observes, "but they have a negative impact in that they become entrenched and very hard to get rid of." James T. McIntyre, head of the Office of Management and Budget, labels indexed government payments "the real driving force of inflation."

Chase Econometrics chairman Chimerine documents McIntyre's fears. "Indexing Social Security benefits and other government transfer programs accounts for nearly one-third of the federal budget," he notes. "Each 1% rise in the CPI adds about $1.7 billion to the budget. The very sharp increase in these indexed programs is the reason why federal expenditures' share of GNP is rising after having fallen by 2½ points since 1975."

In private industry, 60% of the workers who will be in contract negotiations this year are covered by COLAs: all told, 5.5 million workers have them.

OUTLOOK. While it is generally recognized that the automatic payment increases pegged to the CPI fuel future inflation, neither Congress nor the Administration is likely to take on the powerful lobbies; even so simple a reform as cutting the COLA in civil service retiree and food stamp programs from twice to once a year, a step that would save an estimated $1 billion, draws little support. The guideline-shattering handsome wage settlements in the auto and steel industries, despite layoffs and import threats, suggest that industry, too, is unwilling to tackle the issue.

Our business is up due, I think, to the growing pressures in the workplace. They're giving people a greater need than ever before to get away for a vacation.

—Howard Fine
Executive vice president
Trusthouse Forte Hotels, Ltd.

Business Investment

Like productivity, lagging business investment is both a creature of, and a contributor to, inflation. On the one hand, the uncertainty about the future raises the risk of long-term investment. Comments Wharton's Jeffery Green: "When the inflation rate bounces all over the lot, it's more difficult to estimate the profitability of various kinds of investment and the revenues that will be generated."

On the other hand, holding back on needed new, more efficient equipment retards productivity. Alice M. Rivlin, director of the Congressional Budget Office, notes, "Trend growth rates in real business fixed investment [adjusted for inflation] was only 2½% in the 1970s. This was 4½ percentage points slower than in the previous decade.

"Beginning in the mid-1970s, the ratio of capital to hours worked hit a plateau, reflecting both the slower capital growth and the rapid increase in labor hours. This stagnation of capital-to-labor ratio has been a factor in the poor productivity performance in recent years."

Industry's preference for substituting labor for capital may intensify the current recession. A. Gary Shilling, head of his own consulting firm, notes that "businessmen have been adding labor rather than investing in capital because labor can be dispensed with much more easily when worse comes to worst."

OUTLOOK: Washington appears to have finally come around to the realization that various forms of investment incentives are needed to get productivity on an upbeat and defuse inflationary pressures. The recession will put the corrective actions off temporarily. However, as DRI's Lee Phillips cautions: "Government can only create the environment. More important, it will be up to businesses and individuals to follow through."

Transition to Services

While the concept of a services society convokes the image of the good life, it has a high price tag. Indicative of the shift from a manufacturing-oriented economy to a services-oriented one is the fact that white collar workers now represent more than half of the work force. Their share climbed from 43.4% in 1960 to 51.3% in 1979, according to Main, Jackson & Garfield, management consultants.

While this celebrates the triumph of brain over brawn, it feeds inflation from two streams. Susan M. Sterne, head of Economic Analysis Associates, notes that "productivity advances in the labor-intensive services are much harder to achieve than in manufacturing. Also, services have an easier time passing on price increases."

Certainly, the record bears her out. Price increases of services consistently outstrip the CPI—92.6% vs. 86.9% in the 1970s. And productivity, after growing less than 1% a year from 1966 to 1973, declined 0.9% a year between 1973 and 1978.

OUTLOOK: Despite the dismal performance, dramatic improvements loom in the years ahead. Consider these two items: 1. Arthur D. Little's Vincent E. Giuliano figures that 60% of the workforce is involved with information one way or another. 2. Management consultant John Diebold estimates that "less than 15% of the information used in business is automated." Given the tremendous technological advances coming in the symbiotic computer and telecommunications technologies, striking gains will be made in the office environment that has resisted change.

Improvements will occur outside the office, too. Hudson Institute's Irving Leveson cites changes in medical diagnostic and financial services as indicative of the dramatic improvements that will boost services productivity.

Demographics/Lifestyles

The postwar baby boom, which created new market after new market as it moved through the age cycle, became an inflationary stimulant when it reached the job-seeking stage. Between 1970 and 1977, the 16–24-year-old group increased from 21.6% of the labor force to 24.3% while workers in the prime age group, 25–54, showed no change. This was a tremendous influx of unskilled workers, which pushed business costs upwards. Compounding it was the surge in women workers of all ages, who accounted for 60% of total labor force growth in the 1970s. Many of them entered the job market for the first time, and their lack of work experience added to costs.

> **Frankly, we think the whole plan [federal restrictions affecting credit card useage] was concocted after one of Mr. Carter's famous three-martini lunches.**
>
> —McNeely & Co. Retailing Industry Newsletter

As consumers, the young adults adopted instant gratification as their spending credo, going in heavily for credit purchases. "Research shows that they viewed credit cards as convenience instruments rather than as debt," says Roger D. Blackwell, senior consulting associate with Management Horizons, Inc. It was the tremendous swing to credit purchases that put off the widely predicted recession last year. Consumer debt rose 50% faster in the 1975–79 period than in the preceding four years.

OUTLOOK: The maturing of the work force, now that yesterday's newcomers have acquired job skills, will reduce inflationary cost pressures. The 16–24 year olds will slip back to 21.6% of the labor force by 1985 while the prime age group, 25–54, will expand to 65.7%. Furthermore, college-trained entrants, who represent one of five workers today vs. one in eight in 1970, will continue to increase.

However, the huge consumer debt presents thorny problems. Gordon B. Pye, an economist with Irving Trust Co., fears that "the main problem in bringing the recession to an end will be working off the consumer debt and building up real income through a reduction in inflation. It will take time, maybe longer than we expect."

"Mounting job layoffs could provide the trigger mechanism for serious financial disruptions," A. Gary Shilling fears. "In the labor market, those laid off first are likely to be those hired last—the postwar babies, who are in the process of establishing households, and comprise the major purchasers of homes and durables."

Although the recession's rising unemployment and falling buying power will occupy center stage the next several months, it should not divert concern from a multilevel attack on the core inflation problem. If price stability is not restored, the U.S. faces the prospect, as Ian Wilson, General Electric's in-house philosopher, told a recent Assn. of National Advertisers workshop, of becoming locked into a set of "institutionalized responses to living with high inflation on a more or less permanent basis." The 1980s still hold the promise of a significant growth period (S&MM, Marketing in the 1980s, Dec. 10, 1979), but unless inflation is brought under control, growth will be more illusory than real.

Selling with your back to the wall

Marketers striving to protect margins in an inflationary environment are often trapped in a no-win situation. Half of 928 establishments probed by the Univ. of Michigan's Survey Research Center (SRC) said they try to offset inflationary pressures by passing on cost increases more rapidly. Yet, as SRC observes, such defensive actions "may exacerbate the problem so that the degree to which establishments cope may be indicative of future changes in the inflation rate." The survey also revealed that manufacturers are more likely to resort to this strategem, as well as boost prices in anticipation of future cost increases, reflecting the fact that they are "the first link in the production-distribution chain." A surprisingly low one-fifth of establishments try to build up stockpiles as a hedge against rising costs. SRC thinks the share would have been higher but for the high interest rates linked with financing inventories.

Coping with inflation: Best tactics for marketers

Ways in Which Businesses Cope With Inflation	*All Establishments*	*Manufacturers*	*Wholesalers*	*Retailers*	*Size of Establishment: Small*	*Medium*	*Large*
Inventory Stockpiling	**21%**	**27%**	**26%**	**18%**	**20%**	**24%**	**13%**
Accumulation of:							
Raw materials	11	20	10	8	9	15	9
Finished goods	16	12	23	15	16	17	9
Pricing	**60**	**72**	**58**	**58**	**57**	**71**	**53**
Increasing prices in anticipation of cost increases	30	44	22	30	30	32	29
Passing on cost increases more rapidly	50	59	52	47	46	61	53
Borrowing	**61**	**61**	**45**	**66**	**57**	**72**	**61**
Reducing:							
Short-term	46	49	43	47	44	54	50
Long-term	54	47	45	58	56	50	42
Increasing:							
Short-term	8	6	4	9	5	15	6
Long-term	9	12	7	9	7	13	21

Source: Univ. of Michigan's Survey Research Center; *Economic Outlook USA, Spring 1980*
Sales & Marketing Management

The economy's impact on consumers: Cutting back, feeling deprived

Even before prices took off in the first quarter, consumers were retrenching. A poll of 200 adults in January by Ogilvy & Mather's periodic Listening Post survey revealed that a rising proportion of respondents were cutting spending on food, utilities, and gasoline. When prices shot up 18%, annual rate, in the first quarter, almost one-fourth of 1,400 adults polled by Citicorp's monthly survey in March said they could afford "hardly any" of the things they wanted. This was a significant increase over the consistent one-fifth that reported a similar feeling in the three preceding years. Here's what the two surveys reveal:

Inflation-induced lifestyle changes

	1/78	*1/79*	*6/79*	*1/80*
Haven't made any changes	**47%**	**34%**	**32%**	**25%**
Have made some changes	**53**	**66**	**68**	**75**
Sticking to a budget	**22**	**22**	**22**	**24**
Spending less on food	**10**	**20**	**22**	**26**
Using less utilities	**24**	**16**	**16**	**29**
Using less gasoline	**4**	**2**	**10**	**19**
Spending less on clothes	**2**	**3**	**3**	**5**
Spending less on entertainment	**4**	**6**	**2**	**2**

Source: Ogilvy & Mather, Listening Post #7

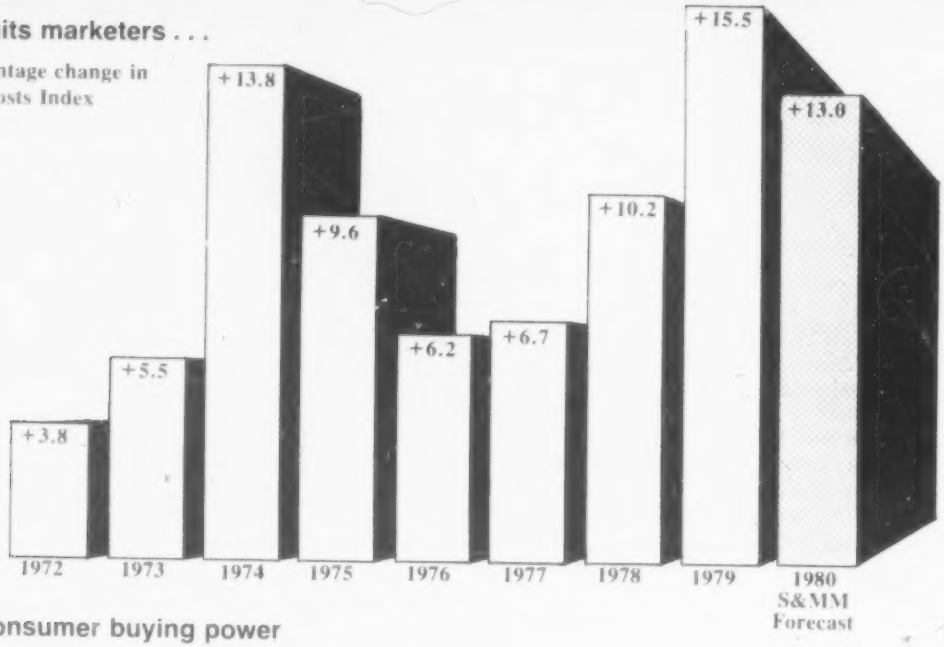
Downbeat consumer

	12/76	*11/78*	*7/79*	*3/80*
Can afford hardly anything	**19.9%**	**19.1%**	**19.9%**	**23.9%**
Can afford some things	**41.0**	**43.1**	**41.1**	**42.9**
Can afford most things	**30.2**	**26.4**	**29.2**	**24.0**
Can afford almost all things	**8.6**	**9.0**	**9.3**	**8.4**

Source: Citibank, N.A.
Note: Details may not add to 100 due to rounding.
Sales & Marketing Management

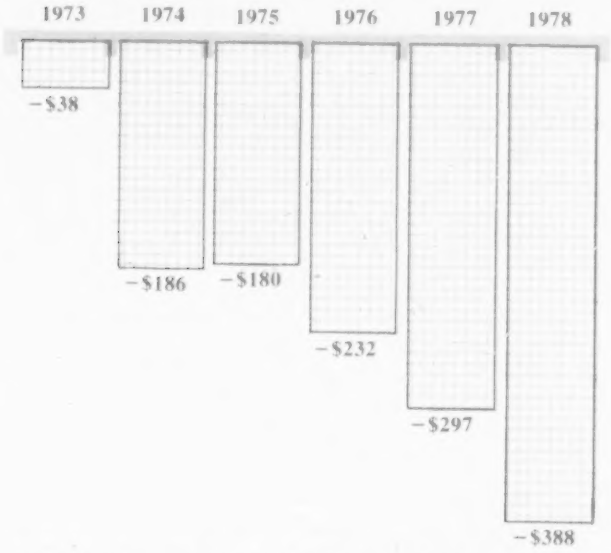
How inflation hits marketers . . .

Year-to-year percentage change in S&MM's Selling Costs Index



. . . and zaps consumer buying power

Loss in buying power, Bil. $

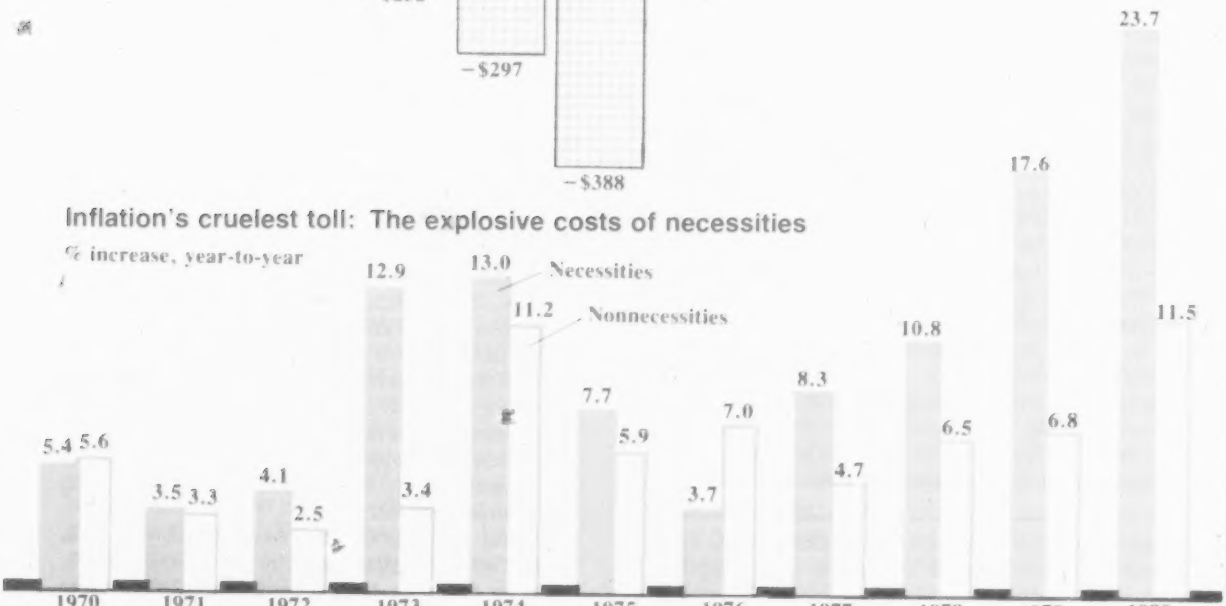


Loss in buying power calculated by (1) adjusting current dollars by personal consumption expenditure deflator (base year 1972), then (2) multiplying result by number of households. Sources: S&MM calculations; Commerce Dept., *Survey of Current Business*; Census Bureau, *Money Income in 1978 of U.S. Households*, Series P-60, No. 121.

Necessities are: food, rent or mortgage payments, gascline, fuel and electricity, and medical expenses.

Inflation's cruelest toll: The explosive costs of necessities

% increase, year-to-year



National Center for Economic Alternatives
Sales & Marketing Management

Selling with your back to the wall

SURVIVAL STRATEGIES

How to cope with inflation (or whatever is out there)

By JACK P. DONIS
Prof. of accounting and finance, Seton Hall Univ.

Extended economic forecast for marketers for the second half of 1980: Stormy weather for the entire U.S. because of past spending excesses and election-year hijinks, all leading to contradictory periods of economic sanity and insanity. Inflation will persist but at a decreasing rate, one, however, that could still be dangerous to the survival of the weak, the young, and the aged. Probable rate of inflation during period: 12%–17% CPI. Small craft warnings from Cape Hatteras to the Great Lakes. Sunbelt area, cloudy.

When a country gets hooked on the euphoria of allowing "a little bit of inflation," there is the danger of becoming addicted. The U.S. has become an inflation addict, and the cure is bound to be painful. Already, the withdrawal symptoms are frightening. The immediate problem is how to cope during the withdrawal, which should take place in the second half of 1980.

This forecast is based primarily on two factors: expectations of continued inflation, and the willingness and ability of its creator to change those expectations. It has been decided as a matter of principle that inflation is bad. And just as the government was the inflation pusher, only the government is in a position to stop it. Stopping inflation effectively calls for such distasteful measures as monetary and credit restraint and balanced budgets. Their objective: lead both business and consumers to believe that there will be no further major price increases for goods and services.

Thus the months ahead should be a period of reduced production, increased unemployment, and uncertain pricing. Just as prices rose at different rates during inflation, they will decline at different rates during deflation: some will continue to rise at a decreasing rate, some will decrease at various rates, and some will remain about where they are now. But "deflation" to a 10% rate is still inflation. It's just a lower rate.

Forecast: There is little probability of a rate of inflation at an annual rate less than 10% CPI for the second half of 1980. But prices of some products will drop sharply.

In the consumer market, the consumer is going to be forced to reexamine necessity spending vs. discretionary spending. *Every day the consumer goes into the marketplace and casts her ballot for "necessity" or "discretionary" expenditures.* Only when all the votes have been counted can we tell which is which.

Examples of "necessity" becoming "discretionary" abound. You probably know individuals who see every musical on Broadway, even when unable to work the cost into an expense account. But with the price of a pair of tickets at $50, and dinner another $60, and a sitter and miscellaneous at $15, the evening in town comes to $125. With college tuition rising 15% this year, it may become a question of keeping the kid in school, or taking him out and keeping up the record of "seeing everything on Broadway." For many, the necessity of theatergoing may become discretionary.

This sort of thing is going on all over the country. There are cutbacks from yesterday's necessities. Retailers are finding that demand for a new spring wardrobe is not the necessity it was last year, except for the very rich. The biannual new car is stretching to three years or even six.

There is one clearcut discretionary expenditure that is still classified as a necessity, however—Americans this year continue to feel the urge to travel abroad on vacations. (Early in April, I couldn't even get space in the hotel of my choice in Palermo, Sicily, for mid-June!) The consumer has cast the ballot. Foreign travel is a necessity for now. As one can see, the consumer is unpredictable.

The challenge to the marketing executive is to know what that selection is going to be. The definition will vary from section to section of the country. Even though there is concern about recession, the indicators are that the Sunbelt states don't think it applies to them. Despite this belief, if there is a recession it will probably throw shadows over the Sunbelt, even Texas. On the other hand, in the northern manufacturing states, which have automotive and heavy industries that are slowing down, there can be a stormy pricing and demand situation.

Selling at list price may become as nebulous as in the automotive industry. As demand falls, there is going to be a drop in production with resultant excess capacity and high fixed costs,

In addition to his academic responsibilities, Jack P. Donis does management consulting and is affiliated with the Greenhouse Group, New York City, management consultants.

which will vary by industry. When that happens there can be a straightforward markdown of prices to reflect the lack of demand, or companies can play the Detroit game of holding list prices but giving big discounts and manufacturers' rebates.

During the transition, marketers better rethink their working relationships with their fellow production and financial executives. As a financial man thoroughly corrupted (enlightened) by marketers, I am aware of all the methods of costing and the impact of that costing is valid, but in the short run, full-absorption costing may be counterproductive. If the financial executives aren't aware of this, you have serious problems.

With fixed costs surrounding a company, only variable costs become relevant in the short run. If the alternative to low profit is loss, there is no choice. The free market system, if it is to survive, is based on flexible pricing.

The Chrysler syndrome (increasing prices while increasing rebates and allowances) can be the demise of honest pricing. When the squeeze comes, marketers must discuss variable cost pricing with their financial executives. And the production executives have to "give," too. The fixed production costs can often become variable if it is a matter of survival—to have the ability to fight and produce a profit another day. To a degree, there is no such thing as a fixed cost in the long run. Only managed costs.

In the industrial goods market, the national price-volume slowdown for consumer goods will change the expectations in the manufacturing sector. The market for machinery and equipment will be examined more closely in terms of an ROI, cash flow analysis, and so forth. Price alone does not determine the demand for producers' goods. The expectation of profit improvement is the governing factor, and as long as funds are available, no interest rate is out of line as long as the expected benefits exceed that cost by a "reasonable" margin. High interest rates are just higher costs that act as hurdles on the drive to winning the profit race. When the expectations of increased demand and increased profit by the manufacturing sector turn down, then the producers' goods market will have its recession or depression.

One segment of the producers' goods market should remain and becomes especially important: the cost-effective replacement market. It is difficult for many financial executives to accept, but once they buy a machine it is a sunk cost and not relevant in itself when there is an opportunity to replace it with a more cost-efficient piece of equipment. When business is good, price can cover inefficient investment. When business is

Love that inflation

Can business executives cope with our made-in-America brand of inflation? Some can, and they will prosper. Others can't, and they will suffer. Some businesses are prouducers of goods and services which have relatively inelastic demand. When prices of the goods they buy increase, they pass the increase through to their customers at the regular markup—plus "a little extra for inflation."

The dollar increase is very interesting. Take a producer who uses a 50% markup on his cost of $100. If his costs rise by 25% due to inflation, his product-cost becomes $125. Now, compare the dollar contribution on the sales of one unit:

	Before Inflation	*After Inflation*
Selling price (50% markup on cost)	$150.00	$187.50
Cost	100.00	125.00
Profit contribution	$ 50.00	$ 62.50

Note that the producer has covered the inflationary cost increase and raised his profit contribution by $12.50 or 25%. If the demand is there, however, and consumers are convinced that prices will be even higher next month, the logical pricing strategy is to round out the price to $200. Using the same cost base of $125, this results in a profit contribution of $75, a 50% jump from the preinflation figure. That is why many businessmen don't despise the "ravages" of inflation nearly as much as they let on.

> **Inflation isn't affecting us as much as the pseudo remedies that the government is imposing, such as the credit squeeze. That's our biggest hurt.**
>
> —John Leopold
> National sales manager
> Mariner Outboards, Brunswick Corp.

bad and that shelter is gone, the only path to high profitability is increased efficiency (lower costs). *There is always a market for an industrial product if it offers both effectiveness and efficiency.*

When they are selling their equipment, marketers of capital equipment can cite dozens of examples using cost-benefit analyses to prove now is always replacement time. As long as there is continuing production and funds are available, it is logical for a customer to make the investment and become more efficient (lower operating costs and increase profit). A simple case: Invest $100,000 to automate scales and save the payroll cost of three men, each at $16,000 per year. The arithmetic easily shows the desirability of the investment to the customer regardless of the criterion for investment.

The unwillingness to recognize this is one of the factors that has led to the serious situation in the steel industry.

Forecast: Stormy conditions as the industrial goods market is buffeted by decreasing consumer demand and price readjustments; safe harbor for those who have cost-effective products and know how to merchandise them.

What about 1981 and later? Heaven only knows—none of the sophisticated macroeconomic models are working. We hope that the corporate models are still effective. Will we ever return to the halcyon 4%–5% CPI days? That is a $1 billion question. This is an election year. Anything can happen. Anything.

The helter skelter impact of inflation

The impact of price inflation has been irregular during the past year and the past 10 years. An inspection of just a few price changes published by the Bureau of Labor Statistics shows this clearly.

Consumer Price Index (CPI)

Item	*1978–79*	*1969–79*
Fuel oil	63.5%	357.8%
Coffee	12.8	330.2
Hospital room	11.3	192.2
CONSUMER PRICE INDEX	12.1	103.5
New car	8.2	59.1
Whiskey	5.0	25.9
TV set	1.0	3.3
Producers Price Index (PPI)		
Natural gas	39.0%	542.8%
Coal	2.3	302.1
Industrial chemicals	23.2	178.1
PRODUCERS PRICE INDEX	13.8	126.9
Heating equipment	8.7	81.5
Wire cable	22.4	75.3
Floor covering	5.5	49.7

Source: Bureau of Labor Statistics

The television networks are reminiscent of OPEC—which, in this case, stands for the Organization of Perpetually Escalating Costs. With a limited source of product and a fixed amount of time available, the price is determined on a graph where the ratings curve intersects the what-the-traffic-will-bear curve.

—Donald G. Goldstrom
Director of advertising & marketing services
Armstrong Cork Co.

The Templeton tapes

By DR. JANE TEMPLETON
Contributing Editor

A woman in a Denver focus group is talking: "I used to think that one evening a month on finances—the bank statement, writing the checks—was a lot. We never had what you could call a budget. Now it's about half of what we talk about, and I think about money—or *worry* about it—almost every day, especially in the low part of the afternoon."

In San Francisco, a panelist says: "I don't sleep right most nights. You know, I've never thought of myself as a materialistic person. But I guess I am, because everything else is going pretty well. When inflation first got to be a problem for us, it was just kind of annoying. Then it got to where I took a part-time job, which I don't mind doing. But that was just like a *straw*. Going to the grocery store scares me. Buying a pair of shoes scares me. For the first time, I get the feeling we're not going to make it. There won't be enough for us to live on. I wake up at night, and think I'm drowning."

In Chicago, a woman on a panel on network news viewing says: "I can watch the news, and I get what they're saying, until they have a section on the economy. Then I don't know what happens; I can be looking right at the set, and I don't hear anything."

Panels on banks and banking especially provide hints about how the public's anger, anxiety, and despair over inflation may be expressed in behavior. Starting about a year ago, men and women panelists alike reported that family bookkeeping—once typically a wifely chore—had shifted (or had shifted *back*) to the husband's domain.

A male panelist notes, "It's not that she *can't*, or that I don't trust her. But I need to be in closer touch, and to feel I'm controlling the outflow personally." A female panelist who lost control of the checkbook to her mate says, "It makes me mad. When it wasn't so important, and we didn't worry about it really, he could care less. I was good enough to write the checks and balance the statements. Now that it really matters, the lord and master can be bothered with it. And suddenly, I can't handle it."

Indeed, deciding where to bank is now based on new sets of priorities. Convenience and relatively "cosmetic" concerns like bank layout, premiums, and catchy "image" used to be high on the list of considerations. Now, these have nearly disappeared, and banking customers can be divided into two groups.

There is the *anxious* group that looks for reassurance ("I don't suppose it is real, but I have the feeling that the —— is like my family. I know Ted, who is the person I always go to with problems. He is optimistic and calm, and I feel better.").

And there is the *bullet-biters* group that works off its anxiety by marshalling and pondering hard numbers ("You just have to keep your eyes and ears open. There is always one bank that offers you a quarter of a percent more, or some way around the high interest percentages.").

Panels show that comparison shopping is definitely "in," across the board, from banks to beans, from cold remedies to Cadillacs. It takes several forms:

- **Expansion of brand-loyalty.** One panelist declares, "I used to use just —— mixes, but now I think of either —— or ——, depending on which is on sale."
- **Brand switching.** "The ones I used to swear by—I thought I could really tell the difference," a Chicago panelist notes. "But pennies count now, and so I look at the whole shelf, and I read the ingredients. I don't really *understand*, but I can tell if it's exactly the same. So now I use this cheaper brand, and honestly, it works just as well."
- **Stocking up.** "We have a cellar. So now my purse is full of coupons, and I read those newspaper bargain announcements. When I find something we use for sale at ten cents or fifteen cents below the regular price, I fill up my cart."
- **Recognizing the company** as a "corporate citizen." Another Chicago panelist says, "You know, you get really *mad* at the way prices go up, and then you read the next day in the newspaper that the same company that charges 40% more for its product claims that it can't clean up the river its plant drains

Dr. Jane Templeton, a psychologist, is a specialist in human motivation. She directs Choice Points, a New York City marketing research firm.

into because of the expense." A copanelist adds, "I won't buy the unlabelled stuff, so if I am going to pay for the name, I'll make it count. —— is very civic-minded. They support consumerism, and they are honest in their advertising, and they have been around since I was little. It seems like a concerned, caring company."

Of course, there are a few products which are especially close to the consumers' hearts and for these they will make concessions. A Denver panelist says, "I depend on —— cream. Maybe it's my imagination, but I think it makes me look better. I'll economize on floor-wax and paper towels, and cook my own vegetables, so I won't feel so guilty about buying it."

Another Denver panelist says, "We're doing okay, but even *we* have made a lot of sacrifices. We don't eat out, and we have a lot of spaghetti. But I look forward to getting home, to that first fifteen minutes, when I sit down and have a drink with my wife. I want to keep that. So I always drink ——, even though it costs quite a bit more."

Conclusion: consumers are finding out more about what makes them buy—or bypass—products they used to choose almost automatically.* They're uncomfortable and wary. They don't like having to compare prices and weigh purchases.

A panelist sums it up: "I used to plan my week with my astrologist, or at least from my horoscope in the paper. Now I check the store sales and consult my accountant."

**This new awareness, I might add, also makes them easier to interview.*

"He says it's nothing in particular and everything in general."

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Selling with your back to the wall

PRICING STRATEGIES

The panic of the 1980s: It's pricing

By DR. ROBERT J. DOLAN
Ass't. prof. of management science
Univ. of Chicago

Inflation is greatly increasing the cost of errors in pricing products. Mistakes, which several years ago may have been masked by the overall profitability of the company, may now be fatal. This has brought forth some good advice about adjustments in pricing policies for an inflationary period (such as review your prices more often to cut the lag between cost increases and price adjustment). It has also brought forth some bad advice (notably be sure escalation clauses apply to 100% of the price.)

But inflation will not change the basic facts of business life and good management, especially this one: a sound marketing program still begins with an analysis of the customers' needs. Thus rewriting your pricing rules solely on cost considerations is dead wrong and highly dangerous because it is "antimarketing." How then to set prices in times such as these? Here is my advice.

Basic Principle No. 1: *Value Pricing*

Simply stated this principle is: no matter what happens to the seller's cost, the buyer is not going to pay more for a product than the value he places on it. Thus, no matter how compelling the seller's cost justification for a 10% increase in the selling price of $10, the profit derived from serving an account valuing the item at $10.50 will be zero because the customer simply will not buy anything. His valuation of the goods is the maximum price which can be charged and still have an exchange take place.

This principle is simple and difficult to dispute. Evidently, it is also easy to forget because the most often heard advice about pricing in an inflationary economy is to pass all cost increases through the channel as quickly as possible. It's nice if you can do it without adversely affecting your sales rate. So it's nice but unlikely.

Basic Principle No. 2: *Competitive Pricing*

Most products have substitutes. If substitutes exist, the price charged by the competition necessarily affects your permissible price changes. The competition may or may not change price in response to your change. The competition may or may not be experiencing the same cost pressure. Competitive and market reaction to your price are matters for *analysis*, not assumption.

Actually, principles 1 and 2 apply in any kind of economy. They mean you have to understand the economics of the market and that a pricing policy based solely on costs is wrong. Yet the current inflationary period is vaulting cost into the spotlight, with scant attention paid to other factors. Costs do play a crucial role in pricing—just as the value the customer places on the goods is the upper limit at which a transaction may take place, the direct cost is the lower limit.

Over 50 years ago, the president of General Motors provided a helpful analogy: "Pricing is like a tripod. It has three legs. In addition to cost, there are the other two legs of market demand and competition. It is no more possible to say that one or another of these factors determines price than to assert that one leg rather than either of the other two supports a tripod." We now want to discuss ways to deal with cost escalation, and it is helpful to keep the tripod idea in mind.

Cost escalation does not invalidate the principles, but it does require a strategic response by you. For starters, we must recognize that studies of historical cost are no longer useful. Firms using historical or current cost as an input to the pricing of goods for future delivery will find their true profit margin less than anticipated.

The relevant cost figure is achieved by estimating how much it will cost to replace the goods in inventory at the time of shipment. Thus, if a formal system for cost estimation is not in place, set one up.

The details of a cost forecasting system cannot be given here—situations will be different. Possible inputs include established and potential supplier estimates, trade magazines, government publications, and consultants. A good forecasting system is not necessarily cheap, but most cost increases are predictable and the expense is justified by the ability to make timely price adjustments and better purchasing decisions.

If the cost forecasts were perfect, there wouldn't be much more to the story. But even the best forecasts involve some error and thus quoting prices for future delivery involves uncertainty

Prof. Dolan specializes in developing pricing strategies; among his clients is AT&T. At present he is also designing a research program to determine the market potential for energy recovery systems for the Dept. of Energy.

and risk. For example, if a firm is to deliver goods 12 months from now, following our "anticipatory pricing" strategy, the relevant cost would be the cost of replacing the good in inventory at that time. If you quote a fixed price assuming a 10% increase in costs, you run the risk of the actual cost increase being, say, 20%.

How can you cope with this risk? The answer from those who have forgotten marketing principles is to shift all the risk to the buyer, through, for example, a price-in-effect at time of shipment clause. This is just like the advice to pass all cost increases through the channel immediately—it's nice if you can do it without adversely affecting sales, but it is unlikely you can do it.

Basic Principle No. 3: *Customer Focus*

Profitability comes through satisfying the wants of the customer. Want satisfaction is accomplished not only through the "generic product" supplied, but also through all associated materials, the "augmented product."

Some customers (usually small with little capital) cannot bear the risk of PETS (price in effect at time of shipment) contracts. To shift all the risk to them means "no sale." The risk is inevitable in inflation and must be borne by buyer or seller, or shared by both. The relative ability of the two parties to shoulder the burden and competitive conditions will determine which of these options is best:

1. fixed price quoted at time of agreement;
2. escalation clauses/surcharges;
3. renegotiation with extreme changes in conditions; or
4. price in effect at time of shipment.

In a fixed price contract, the risk is borne by the seller. Expected cost escalation must be explicitly included in the price determination. Unrealistic estimates of cost escalation to minimize risk will result in the quote of a fixed price which is out of line with the competition. While this plan has long been the standard, inflation is prompting the adoption of "flexible plans" such as 2, 3, and 4.

With escalation clauses or surcharges, the price of the goods is pegged to the actual cost increases or decreases which occur. If a published price index does correlate highly with production cost, the index should be used as a basis for the increase. A Fall 1978 survey in the *Journal of Purchasing and Materials Management* showed that 39% of the purchasing agents accepted clauses with escalators. Only a small percentage, 20%, saw escalators as being potentially beneficial to the buyer, however.

In reality, escalators can be beneficial to buyers since by sharing the risk with the seller, the actual escalated delivery price may well be lower than the fixed price which the seller would have quoted if demanded.

A second way to share the risk is to renegotiate with extreme changes in conditions. Half the purchasing agents in the survey accepted this type of contract and felt it a reasonable mechanism because it requires "just cause and hard facts" to be presented.

Naturally, since price-in-effect at time of shipment places all the risk on the buyer, purchasing agents were not favorably disposed to these contracts. Nonetheless, 65% of the purchasing agents in the survey had at one time or another accepted such a contract.

The point is this: inflation has injected significant risks into transactions. There are alternatives to fixed price contracts which deal with this risk in a different way. The decision on which plan is best for you must start with a recognition of the needs of your customers. The payment terms to be included as part of your augment product offering can then be determined.

There are no cookbook answers to pricing in inflation. There are many bad suggestions being made these days. The root of most of these bad suggestions is blindness to the customer and competitive factors, caused by myopic preoccupation with cost. Successful pricing practices will come from:

- remembering the basic principles of sound marketing management;

The war on inflation is over in the U.S.—we lost.
—Jane Bryant Quinn,
financial commentator and author,
speaking at the annual awards luncheon
of New York Women in Communications

What to do when the buyer panics

In a recent issue of *Agency Sales*, salespeople were given advice on "counteracting" buyers who try to foil a newly raised price. One buyer tactic, the magazine notes, is to remind the salesperson that the buyer's company "is a valuable one to do business with," one the salesperson "would hate to lose."

The magazine's recommendation on what to do in such a situation: "Merchandise *yourself* in the same way, as a valuable resource to customers, one they shouldn't be without as prices continue to rise everywhere. Though you cannot personally keep prices down, you can help offset them with your expertise, your knowledge of the industry and their business, and your sharp head for dollars and sense. Buyers expect that from today's sales professionals."

- developing an effective cost forecasting system; and
- using "anticipatory pricing"—that is, using the expected cost at time of shipment as input to fixed price quotes or building in escalators.

Recently, the head of price monitoring for the Council on Wage and Price Stability commented to *Business Week* that companies adopting the type of procedures suggested here are "one of the things causing the current inflation." On the contrary, Milton Friedman convincingly argues that escalator clauses and the like may help bring inflation under control provided the money supply is stabilized.

Regardless, protect your profit margins to the maximum extent possible. We all hope that protection can come through increased productivity and cost-reduction programs. However, as Walter Fackler, a noted economic forecaster, says: "No amount of exhortation by presidents and other government officials will change the cruel economic facts of life. You simply cannot give away your company because we have no long-run, rational strategy for bringing down the rate of inflation."

That makes eminent pricing sense to me.

The real cause of inflation is government spending—and all the money that's being printed. You can't continue deficit spending, all those expensive programs, and pay for it all just by printing more money. Not if you want money to keep its value.

—Walter G. Sittmann
Senior vice president
Oakite Products, Inc.

Advertising in a recession

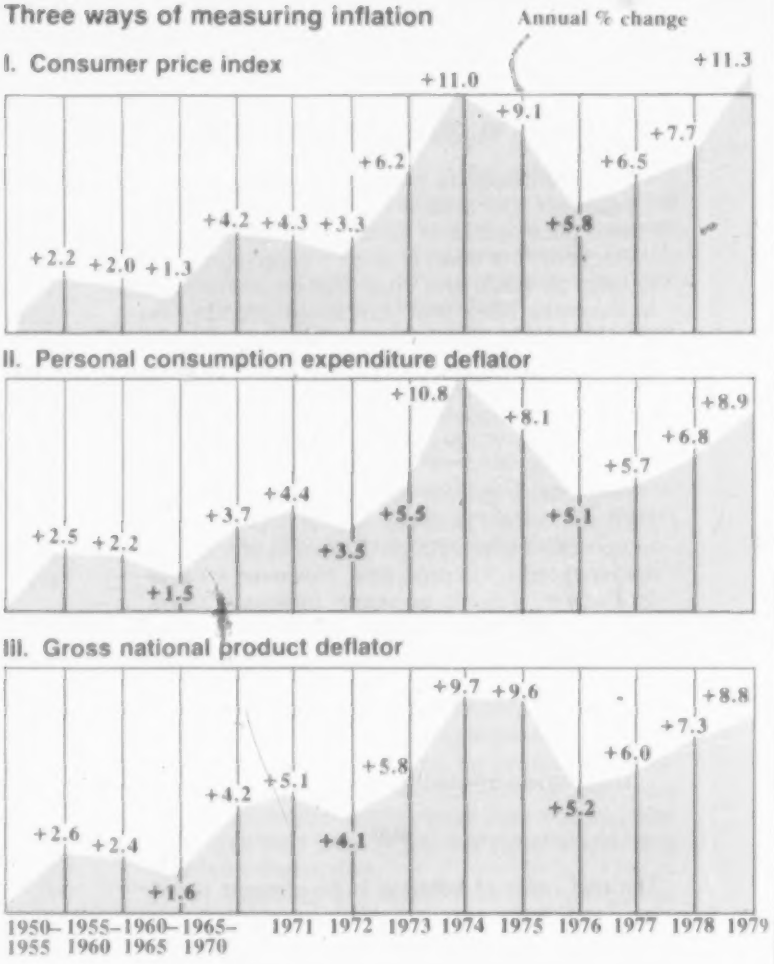
The perennial teaser, Does it pay to advertise in a recession (when, presumably, your competition is retrenching), gets a mixed answer in a new report from McGraw-Hill's Laboratory of Advertising Performance. While McGraw-Hill says its analysis affirms that companies that did not cut advertising in the last recession made out better than those that did, the report's industry detail suggests caveats to the assertion. Overall, McGraw-Hill says, companies that didn't cut advertising increased their sales 132% between 1973 and 1978 while those that did had a 79% gain. However, in at least five industries—transportation equipment, instruments, food, paper, and rubber—the "pinchpennies" fared better than the spenders.

Industry	*Cut Advertising*	*Did Not Cut Advertising*
Durables	**+ 83%**	**+163%**
Lumber & wood	48	78
Furniture	25	49
Stone, clay & glass	55	122
Primary metals	84	108
Fabricated metals	56	95
Nonelectrical machinery	104	297
Electrical equipment	69	135
Transportation equipment	102	81
Instruments	165	152
Miscellaneous	69	91
Nondurables	**75%**	**96%**
Food	93	86
Tobacco	73	115
Apparel	45	63
Paper	98	97
Printing & publishing	87	92
Chemicals	60	115
Petroleum	127	155
Rubber	98	77
Leather	51	69

McGraw-Hill Publications Co., Laboratory of Advertising Performance, *LAP Report 5262*.
* Sales & Marketing Management

Selling with your back to the wall

Three ways of measuring inflation



Note: The monthly consumer price index (CPI), prepared by Bureau of Labor Statistics, is based on a fixed set of goods and services. It uses 1967 as the base period. The quarterly personal consumption expenditure (PCE) deflator, by Bureau of Economic Analysis (BEA), reflects consumer shifts in preferences among various goods and services. It uses a 1972 base. The quarterly gross national product (GNP) deflator, also by BEA, reflects price changes throughout the entire economy; it uses a 1972 base.

Sources: S&MM calculations; Council of Economic Advisers, *1980 Economic Report of the President*; U.S. Dept. of Commerce, *Survey of Current Business*.

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The "core inflation rate"

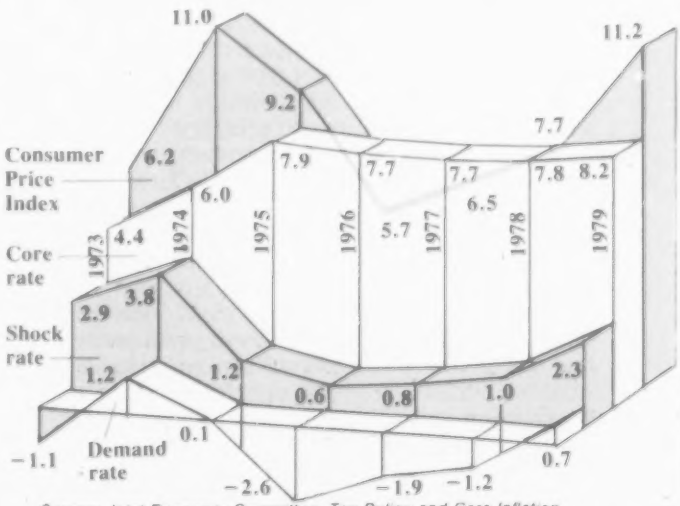
In a special analysis for Congress's Joint Economic Committee (JEC), Data Resources President Otto Eckstein notes "... Since 1964, the core inflation rate has deteriorated steadily, even in years when the Consumer Price Index (CPI) showed dramatic improvement."

Briefly, the core inflation rate is the trend rates of two components: unit labor costs, which influence productivity performance, and the cost of the capital business uses to invest in new plant and equipment. The shock rate usually reflects abrupt changes in food and energy prices. The demand rate is related to the share of capacity industry uses to produce its output as well as the unemployment rate. Of the three types, the core rate has shown the most dramatic persistency to increase at a faster rate.

What's the future outlook for the core rate? "Not good," says Dr. Eckstein. "With productivity lagging and wages likely to accelerate in response to 1979's double-digit inflation," he reasons, "unit labor costs will be advancing very rapidly. Capital costs also will continue high."

Three components of the inflation rate as measured by the Consumer Price Index

% change from previous year



Source: Joint Economic Committee, *Tax Policy and Core Inflation*.

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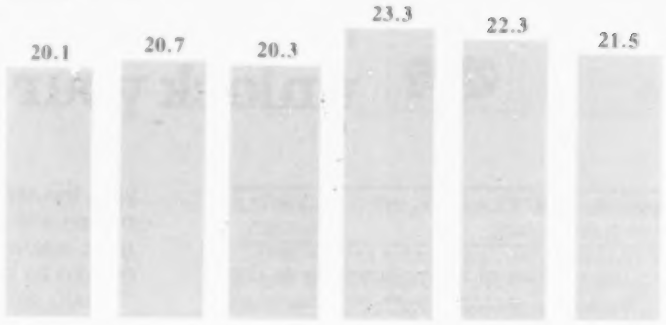
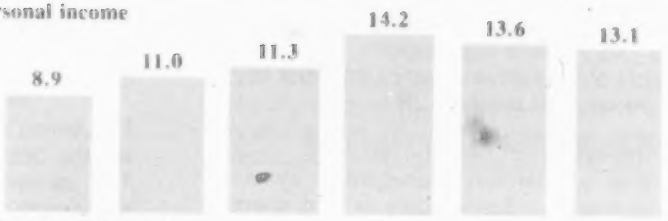
The federal government's role in the economy slackens

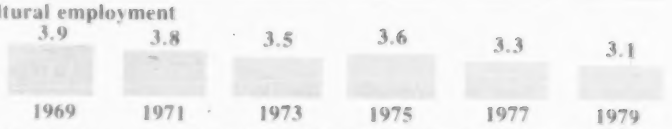
Federal expenditures as % of gross national product



Federal transfer payments as % of personal income



Federal jobholders as % of nonagricultural employment



1969 1971 1973 1975 1977 1979

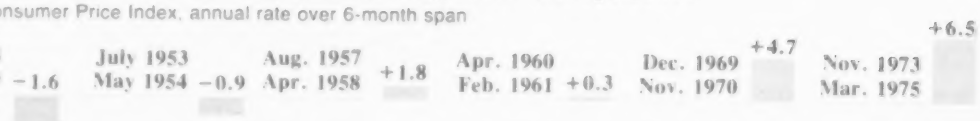
Note: Transfer payments include social security, unemployment benefits, veterans benefits, aid to families with dependent children, and government employees' retirement benefits.

Sources: S&MM calculations; Council of Economic Advisers, *Economic Report of the President: 1980*. Sales & Marketing Management.

Do recessions stop inflation? Don't bet on it.

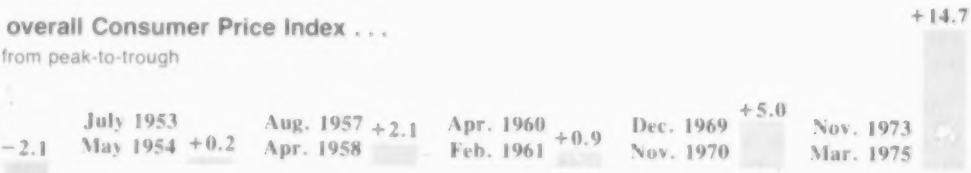
The inflation rate rose in the last four peak-to-trough business cycles . . .

% change in Consumer Price Index, annual rate over 6-month span



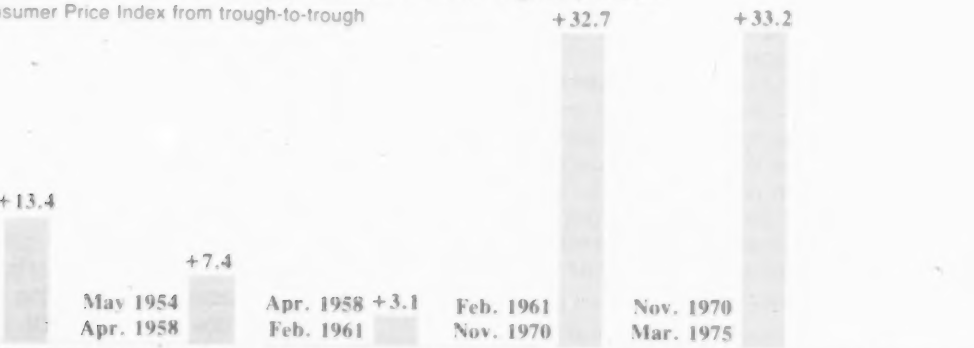
. . . as did the overall Consumer Price Index . . .

% change in CPI from peak-to-trough



. . . and the last two recessions found prices on a much higher plateau

% change in Consumer Price Index from trough-to-trough



P Peak month of the business cycle.
T Trough month of the business cycle.

Sources: S&MM calculations, Commerce Dept., *Business Indicators*, Bureau of Labor Statistics. Sales & Marketing Management.

Selling with your back to the wall

SALES FORCE MANAGEMENT

In times like these, unlock your key accounts

By THOMAS A. WHITTY
Sales training consultant

Improving penetration of major accounts is one means of achieving stable growth in today's uncertain economy. But competition is fierce because everyone would like more key-account business. To improve your results, try building one or more of the following tactics into your key-account penetration strategy.

Manage effort rather than time

A good time and territory management system will ensure that your salespeople or reps spend enough time with major accounts. But first-line managers should also exercise control over the quality of the call.

Have them and their salespeople draw up a written development plan for every important account. Then make sure that your field managers monitor results. For example, if the plan calls for the prospect's marketing department to test your product in the field, the field sales manager should monitor whether the prospect is being contacted; whether its marketers are taking the necessary steps to set up the test; whether the test is well-designed, and so on.

Preparing written account-development plans is not a complicated job. Nor should it unleash a new wave of paperwork. All that's needed is identification of key customers and some of the steps your salesperson will take to influence them.

Focus management effort on fewer calls

Most salespeople are conscientious and make the hundred or more calls you expect each month. However, nearly all key-account development occurs on 15–20 of those calls. Make sure that your salespeople put their best into those calls by letting them know that management is following their progress.

When you or your field managers plan field visits, check with the salesperson or rep in advance to be sure that some important accounts are included in the itinerary. Pay special attention to those in which progress is slow. Also, if you normally receive call reports (especially of the free-form, creative-writing type), teach salespeople to highlight key-account activities. After each visit, the report should tell you where the salesperson stands now vs. plan, and what progress he is making toward the next goal. Such reports needn't be lengthy. For example, one might read, "I finally got in to see Adam Geffert, the engineer who specifies XYZ's bumper materials. He's agreed to take two pounds of our material and test it."

Thomas Whitty is a consultant based in Westfield, N.J. He specializes in sales and sales-management training.

Reduce sales call content

Presenting one good idea, well-romanced, is often the best approach for a major-account call. The salesperson has to call repeatedly on the same prospects at a major account. If he unloads all his ideas on the first call, repeat visits become "here-I-am-again" calls. If, on the other hand, he builds a reputation for coming in with a significant piece of information each time he visits, his calls will be welcomed. Only then is he on the way to account penetration.

Management can provide direction regarding call content during coaching visits and discussions of major-account plans. Also, don't overlook the influence of your sales literature. If the salesperson's only brochure lists every product you make and every customer benefit, it encourages a shotgun blast sales call. To encourage a rifle approach, produce sales tools that highlight one important point. Remember, the prospect, like you, is looking for ways to deal with the economy. He's bombarded with information. If your salesperson presents one good idea, it's less likely to get lost in the flood.

Go for the top line

No doubt you're under increased pressure to improve the bottom line, profits. But it's usually easier to direct and motivate salespeople toward the top line, volume. The goals are not incompatible. It's quite practical to set top-line goals in such a way that their achievement ensures bottom line profits, especially when you're setting goals for major accounts, which generally offer the best profit opportunities. And once you tie the salesperson's goals to your profit goals, you can push sales.

Beef up account records

Don't settle for the skimpy data on major accounts that fits the bill for most customer records. Lack of information is often the biggest obstacle to major-account development.

In major accounts, decision-makers and

buying influences come from a variety of disciplines. It is not only difficult to sell all of them, it is sometimes hard to find out who they are. Thus, the salesperson should build a bank of information to help him penetrate such accounts. It should include such information as:

- who is involved in the purchase decision
- how the decision is made
- what the prospect's long- and short-term production and marketing plans are
- what problems exist
- significant personnel changes
- changes in the prospect's decision-making processes.

That kind of information will take time to uncover and accumulate. It is not going to be gathered on one call or even five. But on every call, the salesperson should seek out new bits of information.

Encourage him to take notes during the sales call. Many salespeople are reluctant to do so, but it is the mark of the professional to hear accurately and use the information gathered. Interestingly, some customers are more outgoing and talkative

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if they see that the salesperson is so interested that he is writing down the facts they offer. Such notes are the best way to ensure that an account profile is updated correctly and fully.

Sell in breadth

Naturally, the salesperson should call on different headquarters departments such as purchasing, production, marketing, finance, and so on. He is also smart to know more than just the top executive in each department because others do have influence and promotions do occur. But major accounts generally are spread out in other ways: They have a number of plants; they have field organizations for sales and service; and they have many customers. At times, contact with this broader organization can be an aid to account development.

A salesperson can make a case for visiting locations other than the prospect's headquarters (and thus influencing other levels of decision-makers) by offering to train; to serve as a skilled observer of applications; to help keep communications open; to gather specialized information; or to help solve a problem.

Reexamine sales force compensation

It's likely that your current compensation plan doesn't reward a salesperson who helps on an account that is someone else's responsibility. Find a way to give some credit to all those who help to make your company's presence felt by an important account or who gather and report information from around the country that will help sell the account at the decision-making point.

None of the above ideas is going to work instantly. But the need for major accounts is constant and even when our current economic problems vanish, you'll come out ahead if you increase you major-account penetration.

The mood is meaner

Replies of 200 wholesaler and distributor firms to a survey by Thomas G. Gies, professor of finance, Univ. of Michigan, suggests that inflation/recession worries are prompting the firms to take a harder line when problems with customers crop up. Here are highlights of the survey (its complete findings will be published in August by the National Assn. of Wholesaler–Distributors).

What action do you take when:	*Action taken when inflation was 3–5%*	*Action taken now*
1. Customers object to price increases and threaten to buy from some other source?		
Lower the prices	30%	7%
Maintain the new prices	30	60
Maintain them but "sweeten" the deal	30	20
2. A credit search on a prospective customer shows that the account tends to pay slowly?		
Deny credit but accept business on a cash basis	20%	22%
Limit credit severely	30	45
Offer credit within normal limits	50	30
3. You've reduced your inventories and are losing some business as a result of out-of-stocks?		
Ignore the lost sales	25%	30%
Increase all inventory levels	20	15
Selectively increase inventory levels until an acceptable level of lost sales is reached	30	35
Selectively increase inventory until no sales are lost	25	15
4. You have an opportunity to take on a new product line, one that could double your sales in five years, but it will necessitate leasing new warehouse facilities?		
Agree to take it on because growth means success	50%	20%
Agree to take it on because it involves no debt financing	25	25
Agree but cut some less profitable items	10	30
Don't take it on	10	20

Selling with your back to the wall

FLEET CARS

Putting a brake on runaway costs

By ROBERT H. KASTENGREN
Transportation Div., Runzheimer & Co.

"Defensive driving" suddenly means something other than how to avoid the other auto; namely, how to keep your fleet costs from driving you crazy. Dealing with dizzily rising costs has become the new national way of life, but nowhere is the challenge greater than in keeping your sales force mobile. Runzheimer & Co.'s latest annual report on what it costs to own and operate a new car shows that expenses increased between 13% and 17% in the 12 months between January 1979, and January 1980; indeed, the average rise for all size categories was 15%. The biggest chunk of the increase is, of course, due to gasoline, whose average cost was up 55%.

How can sales managers ensure that their salespeople keep mobile without draining company profits? Here are some practical and tested ways:

Downsize as soon as practicable—but certainly no later than the start of the 1982 model year. Going from a full-size, 8-cylinder car to a compact 6 yields a savings of 21.5% per year. Downsizing from a compact 6 to a subcompact 4 reduces annual costs another 7%.

Keep cars properly maintained. The Runzheimer Transportation Div. advises that automobiles needing adjustments and repair waste up to two gallons of gas in every tankful.

Institute contests among drivers for best fuel economy. Arm them with fuel-saving driving tips. Invite them to submit their own conservation ideas. Suggest to drivers that very significant gasoline savings can be had by:

1. Driving at a steady speed. Varying mph by only 5 can reduce mpg up to 1.3.

2. Driving slower when bucking headwinds. U.S. Dept. of Transportation studies show that identical test cars driving identical speeds get 16.5% better mileage in zero wind than they get in an 18 mph headwind.

3. Driving with windows closed whenever possible. Open windows increase the coefficient of drag and can lower mileage by as much as 10%.

4. Turning the engine off when the car must idle for longer than 60 seconds. The average engine uses about 1 gallon of fuel for every 1½ hours of idling.

5. Avoiding lane-jumping. Side-to-side movement can cost 1 to 2 mpg at highway speeds.

Reduce the size of your fleet. Eliminate as many field sales and service cars as possible by tightening eligibility requirements for the assignment of business cars. Marginal executive and nonexecutive recipients can be sifted out through a redefinition of vehicle assignment by job description, minimum mileage, or time usage.

Tailor auto reimbursements to reflect each driver's home city and travel territory, paying a fixed dollar allowance for static expenses (insurance, license, depreciation, taxes, and interest) and a variable cents-per-mile rate for running costs (gas, oil, maintenance, and tires).

Consolidate sales territories. Consider using manufacturers' agents in marginal territories

Robert H. Kastengren is the executive vice president of Runzheimer & Co.'s Transportation Div., which specializes in reporting on fleet expenses and strategies to reduce them.

Meal and lodging costs for 9 U.S. cities*

Location	1979 Per Diem	1980 Per Diem	% Increase
Chicago, IL	$65.30	$75.40	14%
San Francisco, CA	60.20	71.45	19%
Philadelphia, PA	57.55	65.65	14%
Honolulu, HI	58.70	65.45	11%
New Orleans, LA	57.70	64.20	11%
Denver, CO	47.15	53.00	12%
Kansas City, MO	47.15	51.75	10%
Charleston, WV	46.90	50.70	8%
Jacksonville, FL	41.65	43.85	5%
		Average	11%

*Prices include single lodging and three meals at first-class hotels and restaurants in each city.
Source: Runzheimer Meal-Lodging Cost Index

What it costs to own and operate an auto*

Car Category	Average Annual Cost 1979 Models	Average Annual Cost 1980 Models	% Increase
4 cyl. Sub-compact	$2,410	$2,808	17%
6 cyl. Compact	2,636	3,040	15%
6 cyl. Intermediate	2,838	3,212	13%
8 cyl. Intermediate	2,942	3,345	14%
8 cyl. Standard	3,217	3,770	17%
		Average	15%

*National average costs predicated on trade-in after four years and 56,000 miles.
Source: Runzheimer and Co., Transportation Division

where sales or service requirements do not justify miles traveled.

Improve your telemarketing program. Sell and service more by telephone. Avoid on-premises sales and service calls wherever possible. Consider switching the responsibility for filling reorders of products and services from marketing to service. Then provide a level of service desired by the customer adjusted to a graduated fee scale. Install cost efficient, computer-driven telephone systems to maximize the process while monitoring the reorder needs of the client through ongoing computer-to-computer analyses.

In another area of business travel, the Runzheimer & Co. Living Cost Div. reports that the national average per diem costs for lodging and meals have increased 11% from January 1979, to January 1980. Living Cost Div. executive vice president Gaylord F. Milbrandt recommends the following to hold down on-the-road expenses:

1. Establish realistic policy guidelines for lodging and meal expenses based on factual data.

2. Make use of commercial discounts wherever possible.

3. Maximize the number of calls made on each trip. It has been shown that improved preparation before trips allows sales and service people to visit, in one day, the customers and prospects that they used to call on in two days.

4. Monitor expense reports by using an independent, unbiased guide such as the Runzheimer Meal-Lodging Cost Index.

Rampant inflation and continuing energy crises are changing the entire nature of sales and service as we have known it for the last 35 years. In travel, history will no longer provide clues for the future. It's a brand-new challenge.

Hold that largess

Are companies overreacting to the cost of gasoline? Judith A. Dettinger, field consultant for Runzheimer's Transportation Div., believes many are. Quoted in S&MM's Aug. 20, 1979, issue she noted, "After a chorus of complaints from salespeople, many have boosted their reimbursements to them." Such over-reimbursement is especially likely to happen, she says, when companies repay at a fixed rate per mile, without taking actual operating costs (gasoline and maintenance, for example), fixed costs (registration or tax fees), and territorial factors into consideration. "A car getting 15 miles per gallon requires a 15¢ increase in the price of gasoline before running costs for that car rise 1¢ a mile," Dettinger notes.

"My sales force has voluntarily adopted a cost-conscious approach to business. For example, I just had a salesman call me up to tell me about a study he'd done himself on how to travel economically. I think that the sales force compensation formula—the-more-you-produce-the-more-you-earn—should be applied in other areas. Meanwhile, at 3M, executives now travel at coach rate."

—Gregg P. Ganschaw
Marketing manager
3M National Advertising Co.

Cranking out inflation

Almost all inflation today begins with heavy government borrowing. This is because the government is the most credit-worthy of borrowers, as well as the most powerful. Its bonded obligations provide the necessary reserves which expand the money supply. Government involvement also assures that the necessary political support exists to proceed with credit expansion.

The newly created money is first spent by the persons who hold transcendental–capital claims: government employees, welfare recipients, and politically favored interests which depend upon the government to purchase their unsold products. Because they get the newly created money first, they get to spend it before prices have risen.

Eventually, the newly created money dribbles through the system to the point where nearly everyone is enjoying some increased increment of cash. Prices, by this time, may have begun to rise, but no one is quite sure how high they will go. It is at this point that the effects of inflation in creating misinformation through the price system generate actions which otherwise would not have taken place.

—Excerpted from *The Squeeze*, by James Dale Davidson, published by Summit Books.

Selling with your back to the wall

CONFESSIONS OF A PENSIONER

Living the good life, thanks to the CPI

In its Jan. 31 issue, Business Week published a letter written by William D. Howard, a former accountant (now retired) in the IRS–Intelligence Div. of the Treasury Dept., to Mrs. Janet Norwood, Commissioner of Labor Statistics. In his letter, Howard took Norwood to task for a speech she had just made defending the Bureau of Labor Statistics' Consumer Price Index, which is widely used to adjust wages and pensions for cost-of-living increases. S&MM here reprints portions of Howard's letter because we consider it to be a rare and dramatic indictment of the CPI as one of the major contributors to inflation. We think readers will agree with us.

Dear Mrs. Norwood:

According to the Jan. 22, 1980, issue of *The Wall Street Journal*, you spoke to the National Association of Government Labor Officials and defended the BLS consumer price index against claims that it exaggerates the inflation rate . . . I submit to you that an honest analysis of my own personal financial status reveals more about the impact of the BLS's actions than can be derived from opinions of economists.

Let's start with my 43rd birthday, July 1, 1968, when as a middle-management federal accountant, Grade 15, Step 8, I was earning $22,695. Federal workers then became subject to the "Comparability Pay" law. My salary would have changed little had the "average" pay of the private sector surveyed been used, but it wasn't. The BLS used special weighting curves and other refinements they felt necessary to achieve "comparability," and instead of my pay increasing 22% in the next 4½ years, it spurted 54% to $34,971 by January, 1973, without any promotions. It would be $50,112 a year today if I had not retired on my 50th birthday, July 1, 1975.

During the 4½ years since my retirement from federal employment, my Civil Service annuity (#1 810 115), which started at $1,922 a month, will reach $3,073 based on the CPI-W [the index that applies to wage earners and clerical workers] of 230.0 at December, 1979. Thus, I now receive 63% more retired than I did working in mid-1968, primarily due to the impact of the BLS's determination of "comparability pay" and calculation of CPI-based cost-of-living allowances.

In your speech, which I referred to at the outset, you stated:

"We have one official consumer price index, and we will continue to have one official consumer price index."

"The CPI is the best measure of purchasing power we have."

"The purpose of CPI cost-of-living adjustment has been to permit people to purchase in today's prices the bundle of goods and services they purchased in the base period, thereby leaving them at least as well off as they were then."

This means that I do not have to switch to pork, chicken, or even pasta, as others do, because the cost of beef and veal has gone up more in the last eight years than meat substitutes. I am entitled, according to you, to eat the same quantity and quality of beef and veal as I did in 1972-73, when it was cheap.

I still get to drive gas-guzzling big cars at 6 to 8 mi. a gal., just like people did when the CPI was "based" and gasoline cost 41¢ instead of the $1.20 now.

My radial tires for my cars get 40,000 mi. these days, but my cost-of-living allowances based on the CPI assume that I still get only 15,000 because quality improvements (except for new automobiles) are ignored.

Medical care costs have risen dramatically in the last eight years, and my CPI-based income has been raised accordingly, yet my former employer continues to pay a large portion of my health insurance, and my costs are about the same.

I know that I am very fortunate to have your CPI income protection, as are 50 million other people who are similar beneficiaries. But don't you think, honestly, that it is unjust enrichment? Frankly, it scares me to contemplate what this transfer of payments from one group of citizens to another means.

For example: A local fellow who used to work for the same government bureau I did retired 1½ years ago. I called him last week about a job opening similar to the one I got after retirement. He is a CPA and figured that from the $24,000 salary to start, on top of his CPI-based federal annuity, federal, state, city, and FICA taxes, and commuting expenses would leave him only $9,000 for working, and he therefore was not interested. Why should he support the system?

I understand that BLS's *Monthly Labor Review* welcomes communications that are factual and analytical, not polemical in tone. Although this one is a bit embarrassing to me personally, it is a story that needs to be told, even if it ultimately results in less unjust enrichment to CPI cost-of-living benefit recipients. Sincerely,

William D. Howard

(Ed.'s note: Two months later, Howard received a letter, which he calls "unsatisfactory," from Norwood defending the CPI policy.)

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Selling with your back to the wall

TELEPHONE SELLING

Survival at your fingertips

By MURRAY ROMAN
Chairman, Campaign Communications Institute of America

Inflation is transforming the way goods and services are marketed. The cold sales visit, for instance, is becoming an anachronism and the number of sales calls generally is down because transportation costs have gone through the roof. Just like suburbia, door-to-door selling was founded on the conditions of an earlier day which seem fast vanishing today.

Nevertheless, few managers need to give up effective personal selling, even though they have, in many cases, reduced their outside sales force. The solution is telephone marketing.

The Louisiana National Bank (L.N.B.) in Baton Rouge is among the recent converts to telephone marketing, having achieved notable success with the technique in marketing a telephone bill-paying service called the Bill System. Historically, such systems have not been among the banking field's most successful new services, but L.N.B. recognized the idea as a cost-effective means of attracting new customers. The problem, however, was how to market the Bill System.

L.N.B.'s marketing director, Jerry D. Turk, recognized that advertising had a tremendous task to accomplish because of the natural human resistance to change, especially where money is concerned. He could hardly expect customers to fall over themselves to pay bills by phone.

L.N.B. relied heavily upon TV and print advertising, and also conducted an intensive direct mail campaign. These promotional media were supplemented by telephone marketing.

The telephone proved the ideal medium for selling the Bill System, largely because it allowed for two-way communication without forcing the bank to resort to a costly door-to-door sales effort. The communicator script developed by Campaign Communications Institute of America and approved by L.N.B. contained answers to over 30 commonly asked questions. It was designed to encourage customers to express any fears they might have about the possibility of machine errors, fears which had torpedoed other phone bill paying systems.

The author is recognized as a pioneer of telephone marketing. His company last year placed 15 million calls for a wide variety of clients, including Xerox, IBM, and Citibank.

In addition, C.C.I. recommended incorporating a taped message of L.N.B. chairman Charles W. McCoy, who, because of his title and role as a civic leader, provided an important degree of authority and credibility. In the tape, which was introduced by a live communicator, he positioned L.N.B. and explained the broad range of services offered by the bank, including the Bill System. Afterwards, the communicator returned to answer questions.

The calls were a service in every sense of the word because they stimulated an honest, informative dialogue between buyer and seller. And through this interaction, L.N.B. was able to dispel many concerns about the Bill System among consumers who otherwise recognized the service as a genuine convenience.

The results were far better than L.N.B. had expected. The cost per new account opened was less than for any other media tested, significantly outpolling what would have been achieved by direct mail alone. Indeed, direct mail helped open the door, but telephone follow-up increased the results by almost seven times.

In fact, the telephone was so successful that L.N.B. cross-sold three separate bank services during the same call. The results were even better than what was achieved with the Bill System alone. And included in the package were revenue- and deposit-producing services, which were and still are important to the bank in times of tight money. With this triple-clout approach, the cost per service sold was cut to an astonishing $10.

Afterwards, Turk decided to test customer reactions to the program through an independent survey. The results confirmed the bank's good judgment. According to the survey, the calls had reinforced the bank's consumer-oriented image, and were considered informative. In fact, over half the respondents cited the telephone as the catalyst for signing up for the package.

Unlike every other marketing medium, the

"How can we cure inflation? Discover oil. Meanwhile, we're increasing sales salaries and bonuses to meet or exceed competitors'."

—Joseph H. Neale
Vice president & general manager Container Div., Union Camp

price of a telephone campaign has actually declined. It is not uncommon for the costs of a consumer program to come to under $2 per telephone presentation. At 15 calls per hour, with a 10% order ratio, you can expect more than one sale per hour—less than $20 per sale. And it is also not uncommon that with higher call response rates these numbers will turn out to be significantly less.

The telephone works best hand-in-hand with direct mail to benefit the entire sales effort; it also multiplies by 2 to 5 times the response generated by direct mail alone. Telephone marketing also enhances door-to-door sales. Typically, corporations use the telephone to generate and pinpoint sales leads, thereby boosting the effectiveness of the overall sales effort.

In today's economic climate, with inflation firmly in the double digits and operating expenses exploding, business must make efficient use of their sales dollar. Telephone marketing does this by combining the flexibility of a sales visit with the accountability of direct mail—and, in the long run, for less expense than either.

That explains why more marketers are incorporating it in their operations. One of the latest: IBM, which has just set up an "IBM Direct" division and an in-house telephone marketing facility.

If I were to be asked to identify one basic, underlying cause of our economic difficulties, I would point the finger at our 30-year fascination with the economics of demand stimulation. We have gradually become a nation of demand junkies.

—Sen. Lloyd Bentsen (D.-TX), chairman of the Joint Economic Committee, speaking at the spring meeting of the American Business Press

Airwick refreshens inventory

In the early 1970s, management at the Professional Products Div. of Airwick Industries, Secaucus, NJ, decided to phase out its network of independent distributors and switch to a company sales force, mainly to gain more control over the selling process. But just as the conversion got under way, to the point at which 20% to 25% of sales were accounted for by 10 branch offices, executives decided to go back to using the distributors. Management had concluded that they simply knew local markets better.

For purposes of inventory, it was a propitious move: in the course of disbanding the division's branch offices, the company found that inventories were not as well managed as they were when the distributors were around. Also, as John Updegraph, president of the Professional Products Div., puts it, "Having the small entrepreneur handle the day-to-day operations relieves management of numerous headaches." Moreover, he notes that under the present system, inventory is carried by the distributors, not by Airwick itself.

Although management didn't specifically intend it, a program it set up in 1978 to help its 90 distributors manage inventory even better is also allowing them to cope with inflation-induced higher carrying costs for those inventories. The program, a series of pamphlets and booklets, gives the distributors pointers, beginning with how to keep track of inventory and measure whether inventory levels are too high or too low. Updegraph says, "We also help them with such things as time and territory management, hiring and training salespeople, and so forth."

Selling with your back to the wall

SALES COMPENSATION

Fighting inflation for every dollar

By JOHN A. FISCHER
Vice president, Sibson & Co.

Although the sales compensation plan is probably the most important way of communicating with a sales force in today's business environment, inflation is stripping many of these plans of their effectiveness. Sales executives are faced with problems of severe escalation in selling costs, a drop in employee morale and productivity, and in some cases, the loss of the star performers.

It is useful to take a look at how you manage your sales force and determine if any changes might help to alleviate some of inflation's pressures. Some basic questions which need to be addressed include:

1. Are existing pay levels adequate in view of current market conditions? One of the most pressing issues to be faced in periods of rapid inflation is to determine *how much* compensation should be increased to maintain fully competitive pay levels. The Consumer Price Index suggests that the annualized inflation rate is close to 20%. However, the rate of salaries and compensation for employees in the labor market is advancing 10–12% per year, whereas, pay advances for individuals who are not performing up to standard, or are still learning the job, would be less than this average.

2. Do commission and quota arrangements need to be adjusted? Periods of high inflation normally necessitate a reexamination of commission structures or quota-oriented bonus plans. Sales organizations that have a commission plan normally base the commission earnings on sales dollars. As prices escalate, pay levels also go up. It is often appropriate to examine this cause-and-effect relationship to determine if such a relationship should be maintained. Often, companies conclude that there is a need, to some degree, to disassociate price increases from the commission arrangement to preclude either over-paying or under-paying the sales force.

A similar problem develops where quotas have been established at the beginning of the year based on dollar volume where unanticipated price increases occur during the year. When this happens it is appropriate to consider some readjustment of the quota.

3. Is your sales compensation plan based on performance? At first glance this may seem to be a frivolous question. Yet, contrary to prevailing opinion, many studies reveal that differences in compensation levels for sales personnel are based on such factors as age, service with the company, structure of the territory—or nothing at all. There is little correlation between performance and the level of compensation.

For example, in the case of a commercial insurance company with a commission plan based on sales volume, sales managers who by

> **The problem is that anyone who's asked to do anything about making sacrifices feels like a martyr because he sees that no one else is doing anything.**
>
> —Robert A. Nagel
> Central region sales manager
> Lily Div., Owens-Illinois

the luck of the draw were assigned to territories where there were concentrations of commercial business earned large commissions. However, individuals assigned to relatively weak territories received relatively low commissions even if their market share in these territories was very high.

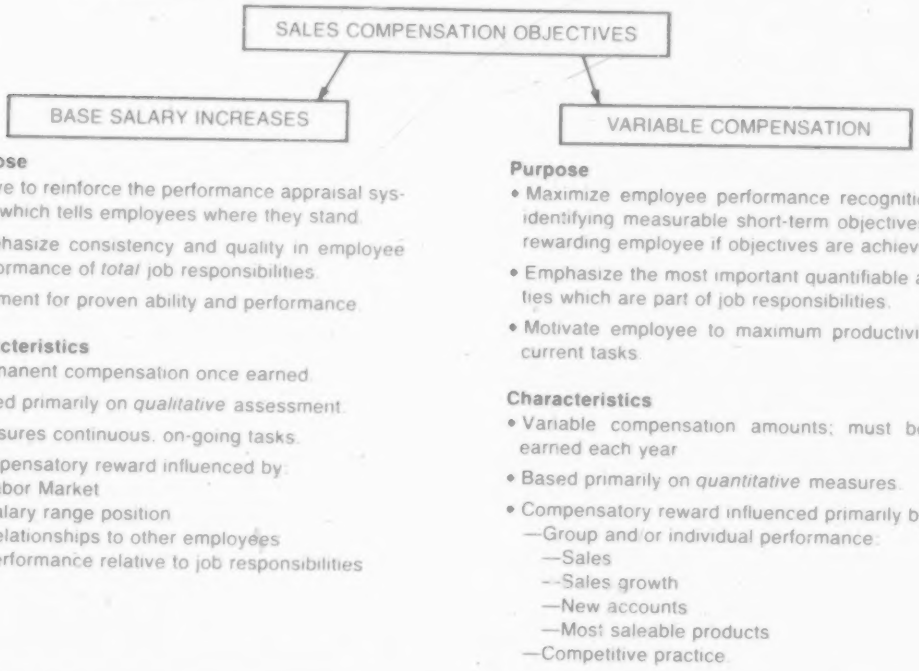
These kinds of inequities promote poor morale and do not encourage salespeople to attain higher levels of performance. First, of course, an organization must have a clear definition of what good performance is. If performance is specifically defined, the sales executive has to make sure that he has a compensation arrangement that clearly compliments an emphasis on performance.

4. Is your sales force top-heavy? Because of a relatively prosperous business environment during the past few years and the desire to create more pay advancement opportunities for the sales force, many organizations have an oversupply of supervisory and management personnel. Often these layers of supervision siphon off valuable dollars that could be used to reduce the overall cost of the sales force, or could be reallocated to provide better levels of compensation for the personnel holding viable jobs.

John A. Fischer is head consultant on sales force management at Sibson & Co., a Princeton, NJ, firm that specializes in employee compensation and human resources management.

Change the plan to fit the purpose

Depending on the objectives he wants to achieve, the sales executive must strike a balance between salary increases for his salespeople and a change in their variable compensation.


SALES COMPENSATION OBJECTIVES
BASE SALARY INCREASES
VARIABLE COMPENSATION
Purpose
• Serve to reinforce the performance appraisal system which tells employees where they stand.
• Emphasize consistency and quality in employee performance of *total* job responsibilities.
• Payment for proven ability and performance.
Characteristics
• Permanent compensation once earned.
• Based primarily on *qualitative* assessment.
• Measures continuous, on-going tasks.
• Compensatory reward influenced by:
—Labor Market
—Salary range position
—Relationships to other employees
—Performance relative to job responsibilities
Purpose
• Maximize employee performance recognition by identifying measurable short-term objectives and rewarding employee if objectives are achieved.
• Emphasize the most important quantifiable activities which are part of job responsibilities.
• Motivate employee to maximum productivity on current tasks.
Characteristics
• Variable compensation amounts; must be re-earned each year.
• Based primarily on *quantitative* measures.
• Compensatory reward influenced primarily by:
—Group and or individual performance:
—Sales
—Sales growth
—New accounts
—Most saleable products
—Competitive practice.

A top-heavy sales force may be a warning that there is something wrong with the career development path for sales personnel. Promotions into supervisory or management positions often are viewed as the only way to give good sales performers more money. Yet the unfortunate result is managers who sell on a part-time basis with marginal effectiveness and who also try to perform managerial functions that may only clog up the system. The alternative is to make sure that the organization has established a clear-cut hierarchy of more challenging nonmanagerial sales assignments so that individuals who are good at selling are given visible career advancement.

5. Would new selling approaches be feasible in your organization? With a high rate of inflation and a squeeze on selling costs, it is a good time to look at your overall sales force management strategies and determine if there are alternative selling methods that might work effectively. One such approach is the use of in-house distribution personnel to function in a selling mode. These individuals often team up with field sales personnel. They assist customers by telephone, increasing penetration and volume levels by promptly handling orders, complaints, and requests for information. The development of incentive compensation arrangements to reinforce such activities results in an environment in which the field salesperson has more time to focus on developing new business.

6. Are you getting maximum value from your existing sales compensation expenditures? Some sales executives find it useful to audit their existing compensation arrangement in terms of the objectives to be accomplished with the base salary portion of the compensation plan compared to the bonus or variable portion (see the accompanying chart). One organization in the chemical business found that it essentially was paying for the same performance in salary increases, an annual bonus arrangement, and in a

monthly commission arrangement. Correction of this "triple dip" won't necessarily reduce any compensation costs, but it will help make the plan more effective in terms of directing the efforts and activities of individuals in the sales force.

To avoid continually changing the relationship between commissions or quotas and sales levels, companies sometimes develop a formula based on *deflated or real sales figures*, or they may simply put a ceiling on the commission or quota levels.

Obviously, there are no easy answers when you look at selling costs in an inflationary economy. Yet sales executives who are willing to grapple with questions such as those I have outlined will be on target in developing more productive and cost-effective selling organizations for today and tomorrow.

From plastic to paper

With charge cards becoming harder to get and, because of interest rates, more costly to use, consumers increasingly will be paying by check. Thus retailers who don't accept checks risk losing business; yet those who do, risk losing money: between 350,000 and 400,000 checks bounce in the U.S. each day.

One solution is to use a check-verification system. Telecheck Services, a nationwide franchise operation, is attracting customers for its plan, whereby a retailer calls a central number and gives the Telecheck operator his customer's name, identification (usually a driver's license, but possibly a credit card or, in some areas, a state I.D.), the check amount, and his own membership number. The operator checks the Telecheck computer, which lists known bad-check passers, and tells the retailer whether or not to accept the check. The operator also gives the retailer an approval number for each O.K.'d check.

If an approved check bounces (one reason: the writer is a first-time offender and isn't yet in the computer), Telecheck reimburses the retailer and then tries to collect on its own.

Let the retailer beware, says Telecheck ad.

Telecheck Southcoast's president, Derek Noske

Proof of the appeal of such services is the rapid growth of Jacksonville, FL-based Telecheck Southcoast, the only multistate (Florida, Georgia, and Alabama, with the Carolinas to be added soon) operation among Telecheck's 30-plus franchises. Established two years ago, Southcoast today has 5,000 subscribers, including the Eckerd and Pic 'n Save drug chains, A&P, Radio Shack, even corner stores, veterinarians, and hospital emergency rooms. Subscribers pay a minimum usage charge of $25 per month, which covers the clearance of a specified number of checks, plus from 2% to 4% of the value of checks beyond the base amount. The base amount, and the subscriber's rate of payment, are determined by the number and value of the checks verified for him by Telecheck. Southcoast's president, Derek Noske, predicts that by yearend he will have close to 9,000 subscribers and possibly 70 operators handling a total of 25,000–30,000 calls per day. He expects to approve checks worth $150 millon–$175 million this year.

Telecheck Southcoast sells its services mainly via direct mail to retailers, although it also uses some ads in industry magazines and in newspapers. When the coupon included with the direct mail piece is returned, it is assigned to one of the 40 salespeople (Telecheck calls them market managers). There are six zone managers whose responsibilities include seeing that leads are followed up within a week. "We've had up to a 15% return on our mailings," Noske says, "but the average is 5% to 6%. We close about 50% of the returns." Once a retailer is signed up, one of Southcoast's 18 "service" people conducts a one-hour presentation explaining the system to the retailer's salespeople.

Now that he's selling retailers on the security Telecheck offers, Noske hopes to sell consumers. Late this year he'll begin mass-media ads to let consumers know that they can conveniently pay by check at stores displaying the Telecheck decal.

Selling with your back to the wall

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